

## **Exhibits B-1 and B-2**

### **Exemptions and Deferrals of Tax Increment**

Redevelopment law, pursuant to California Health and Safety Code Sections 33334.2 and 33334.6, specifies very restrictive conditions that only enable a few agencies to exempt and/or defer from deposit some or all of the required minimum 20 percent of allocated project area tax increment. Only deferrals constitute a debt that must be repaid to the Low-Mod Fund.

#### Exemptions - Section 33334.2(a) (2) (C)

Before an agency can exempt any amount of tax increment from deposit to the Low-Mod Fund, the jurisdiction (city or county) of the agency must have an adopted housing element that the Department has determined complies with applicable provisions of State housing element law. Once a jurisdiction's housing element is found in compliance, statutes require the agency to make one of the following three findings before exempting any amount of tax increment from deposit:

- No need exists in the community to increase, improve or preserve the supply of low and moderate-income housing.
- Less than the required minimum set-aside (20%) is sufficient to meet the community's need.
- The community is making a substantial effort to meet its affordable housing need that is equivalent in value to the required set-aside amount. To make this finding an agency must have incurred a specific contractual obligation before May 1991 that requires continuing the exemption.

Exhibit B-1 shows five (5) agencies (Industry, Rosemead, Paramount, Needles and Brea) exempted tax increment from seven (7) project areas totaling \$12,965,129. Exemptions this year reflect a decrease of nearly 1 million dollars compared to the \$13,710,126 exempted in the previous year by six (6) agencies (this year's five agencies also took an exemption last year). Each agency met the requirement of having an adopted housing element in compliance before taking an exemption. Although some agencies did not specify the authority used to claim an exemption, no agencies claimed an exemption on the basis of not having a need to improve and/or maintain the jurisdiction's supply of affordable housing.

#### Deferrals - Section 33334.6

Some agencies can defer all or a portion of the minimum 20 percent of allocated tax increment from deposit to the Low-Mod Fund, if it is needed to meet debt obligations incurred from project areas approved before 1986. Any tax increment deferred from deposit to the Low-Mod Fund must be repaid. Agencies are required to adopt a plan to repay deferrals before the termination date of the project area.

As reported in Exhibit B-2, eight (8) agencies deferred a total of \$3,317,175 from deposit to the Low-Mod Fund, a decrease when compared to deferrals taken last year of 4,924,568 by 11 agencies (this year's eight (8) agencies were among last year's 11 agencies). This year 14 agencies reported repaying \$3,786,249 of prior year deferrals whereas last year 15 agencies (some are among this year's agencies) reported deferral repayments of \$2,707,456. At the end of FY 2002-2003, the outstanding deferral balance owed the Low-Mod Fund is \$175,662,161.